



Governor of Arizona
Janet Napolitano

STATE OF ARIZONA SCHOOL FACILITIES BOARD

Executive Director
William Bell

School Facilities Board Five-Year Strategic Plan FY 2004-FY 2009

Submitted

October 1, 2003

Mission:

To ensure that school buildings and equipment meet the appropriate guidelines for Arizona students to achieve academic success by providing financial and technical assistance.

Description:

Created by Laws 1998, Fifth Special Session, Chapter 1, the School Facilities Board consists of nine voting members appointed by the Governor; in addition, the Superintendent of Public Instruction serves as a non-voting member. The Board is charged with administration of three capital funds: a) Building Renewal, b) Deficiencies Corrections, and c) New School Facilities. In order to effectively evaluate the State's school capital needs, the Board maintains a facilities database consisting of information reported by each school district. By extrapolating the school district data, the Board provides funding for building renewal and the construction of new facilities. Through periodic inspections, the Board will review adherence to established adequacy guidelines and maintenance of existing facilities. In order to assess the deficiency corrections requirement, a statewide assessment was conducted; the results of which were used to create a funding plan designed to bring existing facilities to comply with State standards by June 30, 2004.

Strategic Issues:

Building Renewal

Building Renewal was reduced by \$79.9 million in FY 2003, and there is no appropriation for FY 2004. The School Facilities Board is requesting to fully fund the Building Renewal formula in FY 2005 at \$134.9 million. The SFB continues to review the components of the statutory formula.

New Construction

The New Construction program has no permanent funding source. In the past, the New Construction program has been funded on a cash basis from General Fund transfers. Starting in FY 2003 and continuing in FY 2004, the legislature replaced General Fund transfers with authority to enter into lease-to-own transactions. The FY 2004 amount of \$250 million should meet program needs, however, lease-to-own is widely recognized as a short-term solution. The Board currently has \$196 million in un-funded prior fiscal year projects and anticipates adding between \$150 and \$200 million in FY 2004 approvals. Since school districts control the actual cash flow for these awards, projecting the FY 2005 cash impact of these projects is speculative. Additionally, the Legislature funded \$21.3 million for the first lease payment in FY 2004 and must increase that amount to approximately \$44.2 million in FY 2005.

In conjunction with finding a permanent revenue stream, the SFB five-year outlook for new construction shows little to no decline in the need for new schools. While there was a drop off in the number of projects awarded during the FY 2000-FY 2001 period and the FY 2002-FY 2003 period, staff believes this was due to a requirement for "catch-up" that existed in the system when Students' FIRST was adopted. By the end of FY 2001, the SFB had awarded sufficient space to bring the general system in line with the statutory standards. Future awards should reflect the pattern seen in FY 2002 and FY 2003, which was generally based on growth. During this period the SFB awarded an average of 26 new schools per year. These projects reflect an underlying average student population growth that breaks down as follows:

Average Student Growth
FY 2002-FY 2003

Grade Level	Average Growth
K-8	11,303
9-12	2,950

These growth numbers reflect students that enter a grade range through ageing and interstate and intrastate migration. The SFB estimates that this growth pattern will be localized in approximately 50 school districts, mainly in the Maricopa, Pinal, and Yuma counties.

Staff's current estimates show a general continuation of this growth pattern over the next five-years. While total state growth has slowed slightly as a percentage of total population, the actual number of people entering the state has remained steady since FY 2001.¹ In addition, the long-term data provided by districts and summarized in our New Construction plan underscores that the areas of the State experiencing extreme student growth expect to maintain that growth for the next three to five-years.

Deficiency Corrections

The SFB plans to issue \$247.1 million in State Land trust bonds to finish the Deficiency Corrections program by June 30, 2004. Current statute requires all projects to be under contract by June 30, 2003 and completed by June 30, 2004. The SFB reached the goal of having all projects under contract by June 30, 2003; however, staff has identified approximately 100 projects that will only be substantially complete by June 30, 2004. The majority of these projects were delayed due to a cost savings measure that involved restructuring the bidding process. Staff estimates that the delay saved the State in excess of \$5 million. Legislative action is necessary to allow the SFB to complete these projects and make final payments during the early months of FY 2005. The Legislature also provided an exception for 308 projects in Glendale

¹ Center for Business Research, L. William Seidman Institute, College of Business, Arizona State University.
1700 WEST WASHINGTON, SUITE 230, PHOENIX, ARIZONA 85007
Phone: (602) 542-6501 • Fax: (602) 542-6529 • www.sfb.state.az.us

Union, Mesa and Tucson Unified. These projects will be completed by June 30, 2005 from the FY 05 \$100 million General Fund appropriation.

Preventive Maintenance

In order to protect the State's \$1.3 billion deficiency and the \$1.4 billion (to date) new construction investment, the Legislature directed the SFB to help districts establish preventive maintenance (PM) programs and then inspect districts to review the implementation of those programs. To date the Board has adopted a general set of PM guidelines and is in the process of helping districts establish PM programs based on those guidelines. The Board needs to work with districts and the Legislature to ensure that the resources necessary to properly maintain the State's schools are made available and properly used.

Goals:

Building Renewal

- To effectively administer the building renewal formula

New Construction

- To ensure that all school districts receive adequate funding to meet the statutory per pupil minimum square footage requirements

Deficiency Correction

- To ensure that all school districts comply with the minimum adequacy standards

Preventive Maintenance

- To help districts properly maintain school facilities

Strategies:

Building Renewal Strategies	
Goal:	To effectively administer the Building Renewal formula
Strategies:	<ol style="list-style-type: none">1. Distribute money as required by law2. Accurately maintain the school facilities inventory3. Review Building Renewal expenditure reports to ensure appropriate use4. Assist districts in developing five-year building renewal plans5. Assist in reviewing the appropriateness of the existing formula

New Construction Strategies	
Goal:	To ensure that all school districts receive adequate funding to meet the statutory per pupil minimum square footage requirements
Strategies:	<ol style="list-style-type: none"> 1. Complete the Lease-to-Own transaction for \$250 million of funding in FY 04 2. Analyze the ADM projections and capital plans from the districts within six months of receipt 3. Assist in identifying a permanent funding source 4. Continue to make project payments in a timely and efficient manner

Deficiency Correction Strategies	
Goal:	To ensure that all school districts comply with the minimum adequacy standards
Strategies:	<ol style="list-style-type: none"> 1. Issue \$247.1 million in State Land trust bonds 2. Continue working with the districts to correct identified projects 3. Complete the delayed projects by June 30, 2005 4. Implement the Inspection Program to inspect district facilities every five years 5. Continue the Emergency Deficiency program

Preventive Maintenance Strategies	
Goal:	To help districts properly maintain school facilities
Strategies:	<ol style="list-style-type: none"> 1. Assist districts in the preparation and submittal of PM plans 2. Review annual PM district reports 3. Complete the inspection program 4. Work with districts and the Legislature to ensure that the resources necessary to properly maintain the State's schools are made available and properly used

Attachments:

- 1.Resource Assumptions
- 2.Building Renewal – Incremental Needs
- 3.New School Facilities – Incremental Needs
- 4.Deficiency Correction – Incremental Needs

Table 1

**Five-Year Strategic Plan
Resource Assumptions**

	Estimated 2003-04	Projected 2004-05	Projected 2005-06	Projected 2006-07	Projected 2007-08	Projected 2008-09
Resources						
Appropriated Funds						
Operating General Fund	\$ 1,577,500	\$ 1,577,500	\$ 1,609,050	\$ 1,641,231	\$ 1,674,056	\$ 1,707,537
Non Appropriated Funds						
New Construction						
Transfer	---	---	250,000,000	250,000,000	250,000,000	250,000,000
COP Proceeds	276,000,000	234,000,000	50,000,000	---	---	---
Lease-to-Own Payment	21,260,000	46,407,975	52,610,638	51,172,650	47,399,288	54,704,425
Rental Income	1,000,000	1,000,000	5,000,000	5,250,000	5,512,500	5,788,125
Building Renewal						
Transfer	---	134,894,470	141,045,658	150,636,763	160,880,063	171,819,907
Deficiency Corrections						
Bond Proceeds	247,100,000	---	---	---	---	---
General Fund Appropriation	---	100,000,000	---	---	---	---
Debt Service Proceeds	66,053,206	65,814,700	65,804,955	65,794,530	65,814,695	65,811,210
Debt Service, State Land Trust	---	23,753,884	25,287,585	25,290,675	25,290,980	25,291,623
Total Resources	\$ 612,990,706	\$ 607,448,529	\$ 566,070,300	\$ 524,495,174	\$ 531,280,601	\$ 549,831,204
Expenditures						
Appropriated Funds						
Operating General Fund	\$ 1,577,500	\$ 1,577,500	\$ 1,609,050	\$ 1,641,231	\$ 1,674,056	\$ 1,707,537
Non Appropriated Funds						
New Construction						
Lease-to-Own Payment	21,260,000	46,407,975	52,610,638	51,172,650	47,399,288	54,704,425
New School Project Payments	279,231,744	241,596,379	233,000,000	237,660,000	242,413,200	247,261,464

Land	31,768,256	32,403,621	33,116,501	33,845,064	34,589,655	34,589,655
Building Renewal						
School District Renewal Payments	- - -	134,894,470	141,045,658	150,636,763	160,880,063	171,819,907
Deficiency Corrections						
Debt Service	66,053,206	65,814,700	65,804,955	65,794,530	65,814,695	65,811,210
State Land Trust Bond Payments	- - -	23,753,884	25,287,585	25,290,675	25,290,980	25,291,623
Project Payments	378,263,800	54,774,700	4,000,000	4,000,000	4,000,000	4,000,000
Total Expenditures	\$ 778,154,506\$	601,223,229\$	556,474,385\$	570,040,913\$	582,061,936\$	605,185,821

Full Time Equivalents

Appropriated Funds

Operating	18	18	18	18	18	18
-----------	----	----	----	----	----	----

Non Appropriated Funds

Deficiency Corrections	11	11	- - -	- - -	- - -	- - -
------------------------	----	----	-------	-------	-------	-------

These Resource Assumptions assume:

Building Renewal

The Legislature appropriates the requested amount with no formula changes

Building Renewal is anticipated to grow at 6.8% per year due to inflation and the age of the buildings

New Construction

This includes the Lease payment and assumes a permanent funding source in FY 06

New Construction reflects a 2% inflation growth

Deficiency Corrections

The SFB issues State Land Trust bonds of \$247,100,000 in October

The General Fund \$100 million appropriation occurs in FY 05

The program will be completed by June 30, 2004 for all but 308 projects in Mesa, Glendale Union and Tucson Unified which will be completed by June 30, 2005

The Emergency Deficiency program is estimated to have an annual project expenditure of \$4 million.

Operating Cost

Maintains current service level through FY 05 then grows by 2% each year thereafter.

Table 2

**Building Renewal Program
Five-Year Strategic Plan
Incremental Change in Fund Balance**

		Actual 2002-03	Estimated 2003-04	Projected 2004-05	Projected 2005-06	Projected 2006-07	Projected 2007-08	Projected 2008-09
Beginning Fund Balance	\$	---	---	---	---	---	---	---
Revenues								
Interest on Investments	\$	---	---	---	---	---	---	---
Rental Income		---	---	---	---	---	---	---
Total Revenues	\$	---	---	---	---	---	---	---
Fund Transfers								
In	\$	38,274,100	---	134,894,470	6,151,188	9,591,105	10,243,300	10,939,844
Out		---	---	---	---	---	---	---
Total Available Resources	\$	38,274,100	---	134,894,470	6,151,188	9,591,105	10,243,300	10,939,844
Expenditures								
Aid to Organizations	\$	38,274,100	---	134,894,470	6,151,188	9,591,105	10,243,300	10,939,844
Transfers		---	---	---	---	---	---	---
Total Expenditures	\$	38,274,100	---	134,894,470	6,151,188	9,591,105	10,243,300	10,939,844
Ending Fund Balance	\$	---	---	---	---	---	---	---

Assumptions:

- 1) FY 2004-05 is adjusted at a 4.2% growth.
- 2) Annual growth is 4.5% in 2005-06 and 6.8% for each year after.

Table 3

**New School Facilities
Five-Year Strategic Plan
Incremental Change in Fund Balance**

	Actual 2002-03	Estimated 2003-04	Projected 2004-05	Projected 2005-06	Projected 2006-07	Projected 2007-08	Projected 2008-09
Beginning Fund Balance	\$ 68,698,250\$	30,691,925\$	-88,194,168\$	6,990,796\$	34,873,374\$	-20,266,201\$	-25,502,606
Revenues							
Lease to Own Proceeds	\$ 315,000,000\$	-39,000,000\$	-42,000,000\$	-184,000,000\$	-50,000,000\$	---\$	---
Interest on Investments	---	---	---	---	---	---	---
Transaction Privilege Tax	2,902,777	-2,902,777	---	---	---	---	---
Rental Income	1,647,665	-647,665	---	4,000,000	250,000	262,500	275,625
Total Revenues	\$ 319,550,442\$	-42,550,442\$	-42,000,000\$	-180,000,000\$	-49,750,000\$	262,500\$	275,625
Fund Transfers							
In							
General Fund	\$ ---\$	---\$	---\$	250,000,000\$	---\$	---\$	---
Other Funds	---	49,000,000	1,000,000	-50,000,000	---	---	---
Out	---	-103,185,800	99,185,800	---	---	---	---
Total Available Resources	\$ 388,248,692\$	-66,044,317\$	-30,008,368\$	26,990,796\$	-14,876,626\$	-20,003,701\$	-25,226,981
Expenditures							
Operating Costs	\$ 7,607\$	761\$	837\$	920\$	1,012\$	1,114\$	1,114
Projects	257,705,561	21,526,183	-37,635,365	-8,596,379	4,660,000	4,753,200	4,848,264
Land	31,145,349	622,907	635,365	712,880	728,563	744,591	760,972

Total Expenditures	\$	288,858,517\$	22,149,851\$	-36,999,163\$	-7,882,579\$	5,389,576\$	5,498,905\$	5,610,350
Ending Fund Balance	\$	99,390,175\$	-88,194,168\$	6,990,796\$	34,873,374\$	-20,266,201\$	-25,502,606\$	-30,837,331

Assumptions:

- 1) Operating costs grow at 10% annually.
- 2) Project and Land costs are grown at an annual rate of 2.0%.
- 3) The SFB will continue the Lease to Own program through 2004-05. A permanent funding source is anticipated for FY 2005-06.

Table 4

**Deficiency Correction Program
Five-Year Strategic Plan
Incremental Change in Fund Balance**

	Actual 2002-03	Estimated 2003-04	Projected 2004-05	Projected 2005-06	Projected 2006-07	Projected 2007-08	Projected 2008-09
Beginning Fund Balance	\$ 374,086,600\$	-295,629,800\$	-77,456,800\$	-1,000,000\$	---\$	---\$	---
Revenues							
Revenue Bond Series 2002	\$ 293,814,242\$	-293,814,242\$	---\$	---\$	---\$	---\$	---
Revenue Bond Series 2003	35,534,791	-35,534,791	---	---	---	---	---
QZAB Series 2003	20,000,000	-20,000,000	---	---	---	---	---
State Land Bond Series 2003	---	247,100,000	-247,100,000	---	---	---	---
Debt Service Proceeds	63,181,200	2,872,006	23,515,378	1,523,955	-7,334	20,470	-2,842
Total Revenues	\$ 412,530,233\$	-99,377,027\$	-223,584,622\$	1,523,955\$	-7,334\$	20,470\$	-2,842
Fund Transfers							
In							
General Fund	\$ ---\$	---\$	100,000,000\$	-100,000,000\$	---\$	---\$	---
Other Funds	37,972,824	65,212,976	-99,185,800	---	---	---	---
Out	-123,000,000	74,000,000	-1,000,000	50,000,000	---	---	---
		---	---				
Total Available Resources	\$ 701,589,657\$	-255,793,851\$	-301,227,222\$	-49,476,045\$	-7,334\$	20,470\$	-2,842
Expenditures							
Operating Costs	\$ 527,817\$	-76,817\$	-225,700\$	-225,300\$	---\$	---\$	---
Aid to Organizations	559,423,840	-185,318,040	-323,331,100	-50,774,700	---	---	---
Emergency Deficiency	---	4,185,800	-185,800	---	---	---	---
Debt Service	63,181,200	2,872,006	23,515,378	1,523,955	-7,334	20,470	-2,842
		---	---				
Total Expenditures	\$ 623,132,857\$	-178,337,051\$	-300,227,222\$	-49,476,045\$	-7,334\$	20,470\$	-2,842

Ending Fund Balance	\$	78,456,800\$	-77,456,800\$	-1,000,000\$	---	---	---	---
----------------------------	-----------	---------------------	----------------------	---------------------	------------	------------	------------	------------

Assumptions:

- 1) The Deficiency Corrections program will be complete by June 30, 2005.